County First BANK

December 6, 2013

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: Interagency Proposal to Amend Flood Insurance Rules: Loans in Areas Having Special Flood Hazards

Dear Sir:

County First Bank ("County First" or the "Bank") appreciates the opportunity to comment on the joint Agencies' proposal (the Proposal") to amend the Flood Insurance Rules regarding Loans in Areas Having Special Flood Hazards. The proposal is designed, in part, to address several issues regarding when Banks must or may accept private flood insurance. As the Proposal notes, while section 102(b)(1)(B) of the Flood Disaster Protection Act (FDPA) requires a regulated lending institution to accept private flood insurance that meets the statutory definition, the statute is silent about whether a regulated institution <u>may</u> accept a flood insurance policy issued by a private insurer that does not meet the statutory definition. The proposal requests comments on whether the Agencies should include a provision in the final rule to permit regulated lending institutions to accept a flood insurance policy issued by a private insurer that does not meet the FDPA's definition of private flood insurance to satisfy the mandatory purchase requirement and, if so, what criteria the Agencies might require for such a policy.

As explained more fully below, County First would recommend that the Agencies do include a provision to permit banks, in their discretion, to accept a flood policy from a private insurer that does not meet the definition of the private flood insurance in the FDPA and further that the Agencies should not require any criteria, such as those discussed in the proposal, that would prohibit banks from accepting flood policies where both the lender and the borrower are, in both the lenders' and the borrowers' opinions, based on experience, for example, fully protected from loss due to flood or other damages and, in particular in the context of a religious community where their self-insurance program, while it does not meet the FDPA's definition of private insurance, adequately protects both the borrower and the lender from the risk of loss due to flood.

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Member FDIC

County First Bank is a small community bank with assets of approximately $200 million. The Bank is located in Southern Maryland and primarily serves three counties: Charles, St. Mary's and Calvert, providing small business and farm loans in this area. A large part of the Bank's lending portfolio (approximately 15%) involves farm loans to the local Amish and Mennonite communities.[1] These communities have strict religious rules regarding contracting with firms and businesses that are not themselves part of their community. Purchasing insurance from outside insurance carriers is not generally permitted, nor, given the simple lifestyle of a community which eschews electricity, for example, would conventional insurance be cost effective. These communities typically seek out farmland which is not often located in Special Flood Hazard Zones, although it does occur occasionally.

The Amish Community does, however, have a self-insurance program known as the Amish Aid Society which issues policies for Fire and Storm damage and also provides flood coverage in appropriate circumstances.[2] The Bank has never used this insurance to satisfy the mandatory purchase requirement under the FDPA because the insurance provider did not meet FEMA guidelines. For hazard insurance, however, the practice in the Amish community is to collect a fee from the insured party and keep track of the structures, etc. that will be covered (which fees are then managed for the Amish community for the entire east Coast region in Pennsylvania) and when there is a loss, the local community will provide or purchase necessary building materials and the entire local community will join forces to rebuild any structure following a fire or other loss within days following the damage or loss. The community may then access the funds to compensate it for the cost of the building materials. The Bank has never suffered any loan loss resulting from damage of any sort to any collateral securing a loan to anyone in the Amish Community. Also, in the case of a loss, the community supervises the immediate rebuilding and the Bank does not receive a check from the insurance and, in fact, may never be aware of the damage until long after the repairs/replacements have been completed.

In the proposal, the agencies requested comment on several issues regarding whether policies issued by private insurers that do not meet the statutory definition of "private flood insurance" should be permitted to satisfy the mandatory purchase requirement. We respectfully submit that banks such as County First should be permitted, <u>at their discretion</u>, to accept policies issued by private insurers, such as the Amish Aid Society, that do not meet the statutory definition of private flood insurance, in satisfaction of the mandatory purchase requirement. While this would not directly stimulate the private flood insurance market at large, it would permit a community such as the Amish to continue their practice of self-insurance in a manner consistent with their religious beliefs and practices.

Given the special circumstances of this community, County First respectfully submits that the Agencies should include a provision in the final rule permitting satisfaction of the mandatory purchase requirement by the self-insurance policies already common to the community in the hazard insurance realm. In addition, we submit that it would not be appropriate to include a provision in the final rules

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1 County First makes these pursuant to an established special purpose credit program wherein the Bank may extend credit to members of the local Amish and Mennonite communities with debt-to-income ratios levels much different than those used in conventional underwriting. This enables the Bank to offer credit to a community that might not otherwise qualify for loans and takes into account the unique qualities of the Amish and Mennonite communities which are focused on farming and embrace a simple lifestyle and intense sense of community. Under this program the Bank may accept the Amish Aid Society self-funded program in lieu of conventional hazard insurance (the Mennonite community has a similar self-insurance program.). Loans made under this program are annually reviewed by the Board of Directors.

2 The Mennonite community has a similar program of self-insurance.

that specifically requires banks to accept only policies issued by private insurers that meet the statutory definition.

The Proposal also requests comment with regard to whether the Agencies should require particular criteria for discretionary policies if they include the discretion to accept private flood insurance that does not meet the statutory definition. With regard to the suggested criteria, County First offers the following comments:

1. With regard to whether the Agencies should require that banks may only accept insurance issued by an insurer that is licensed, admitted or otherwise approved to engage in the business of insurance in the State or jurisdiction in which the insured building is located, such a requirement would prohibit a Bank from accepting the type of insurance offered within communities such as the Amish which use self-insurance programs because these programs are not licensed, regulated or approved by State insurance regulators. Accordingly, the Agencies should not include this requirement as a part of the final rule with regard to the acceptance of private insurance particularly in circumstances similar to the described Amish self-insurance program.
2. With regard to whether the Agencies should require that the coverage provided under any flood insurance policy must be at least as broad as the coverage provided under the National Flood Insurance Program including deductibles, exclusions and conditions, the Amish program, for example, does not include provisions such as deductibles[3] Instead the program is very simplistic, reimbursing local communities for outlays for building materials or animals following a loss. As described above, this requirement would not be necessary to ensure that a flood insurance policy would provide the institution and/or the borrower with appropriate and sufficient coverage for the property securing the loan. Further, such a broad regulatory requirement in this respect imposed the Agencies would instead inhibit the Bank's ability to cater to the needs of its Amish clients and accept their self-insurance program as described.
3. With regard to the requirement that a Bank may only accept insurance including a mortgage interest clause similar to the clause contained in a standard flood insurance policy under the National Flood Insurance Plan requiring that the insurance cover both the interests of the insured and the lender, the Amish program does not operate in that manner, instead providing funds for building materials to a community that supports itself internally with regard to replacing or rebuilding damaged structures. Under this insurance program, there would never be compensation to the Bank for any loss because it is the community's practice to use the funds in order to rebuild after a loss. Since the Amish program adequately protects both the lender and the borrower, it is not necessary for the Agencies to require this to be a part of the final rules in order for the Bank to sufficiently protect its collateral. We understand that some lenders have received a mortgage clause in connection with hazard insurance provided by the Amish Aid Society in other States, but County First has never required such a clause and while the Bank would certainly not rule out asking for such a clause in an appropriate circumstance in the future, we do not feel that such a requirement by the Agencies would be either necessary or appropriate in the flood context.

Finally County First would like to stress its experience with the Amish community, as discussed above, with respect to potential losses due to flood damage to collateral. To date, the Bank has never

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[3] While not a deductible, coverage in the Amish program can exclude de minimus claims (for losses less than $250, for example).

experienced a loss in connection with any loan to members of this community. The community's self-insurance program has always functioned adequately to repair or replace any damages to collateralized structures often even before the Bank is even aware of said damage. The Amish community, pursuant to their practices and religious beliefs is very responsible in their lending practices and thus presents extremely low risk from loss from any source, including floods, fires, death or any other impediment to the satisfaction of a loan. This community is very responsible and takes its financial commitments seriously. We have no doubt that it would do the same in the flood insurance arena. Finally, because these communities are farm based, the necessity for flood insurance occurs infrequently. As a result, permitting private insurance of this nature to satisfy the mandatory purchase requirements will not adversely impact the national flood program nor will it endanger the development of the private flood insurance market.

Accordingly, we respectfully request that the Agencies include in the final rule a provision allowing Banks, in their discretion, to accept private flood insurance to satisfy the mandatory purchase requirements where the private insurance is reliable and facilitates lending to an otherwise underserved community.

Respectfully,

Doug Mitchell
President / CEO
County First Bank

Cc Mark Kaufman, Commissioner of Financial Regualtion
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